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EIND, IDB, OPIC, IBRD, IMF, XL, JM
SUBJECT: Jamaica: Threats of Protests Against "Wicked" Tax Hike
Forces PM Golding To "Re-Examine" Them, Possible Snag For IMF Deal?

REF: KINGSTON 759; KINGSTON 1050; KINGSTON 737; KINGSTON 956
KINGSTON 743; KINGSTON 521; KINGSTON 59

Summary and Analysis

11. (SBU) Sweeping tax increases and further progress on an International Monetary Fund (IMF) Standby Agreement were the subjects of two significant speeches by Prime Minister (PM) Bruce Golding and Audley Shaw, Minister of Finance and the Public Service, in a special Parliamentary session held on December 17 (Reftel A). Shaw announced extensive new taxes on gasoline, cigarettes, and electricity, as well as a one percentage point increase in the General Consumption Tax (GCT). Most painful to poorer Jamaicans would be the elimination of many of the GCT exemptions on goods and services including a range of basic food items. The Opposition Peoples' National Party (PNP) wasted no time in responding calling the tax hike "cruel" and "wicked" in Parliament. The PNP also mobilized its forces over the weekend, calling for "disciplined" and peaceful protests to begin December 21, to culminate in a face-to-face consultation on December 30. PM Golding appeared to buckle to criticism, and released a statement on December 20, saying, "I have heard the cry and the appeal of the Jamaican people." He announced he will "re-examine" the tax package to find suitable alternatives for securing the JD\$21 billion (USD \$237 million) of revenue required to support the program being negotiated with the IMF, while also limiting the burden on poorer Jamaicans. The JLP missed an important opportunity to link the tax increase with a debt reduction plan that would fall on the shoulders of wealthier Jamaicans. This mistake also gave the PNP ammunition to fire back on the JLP, saying the tax hike was inequitable and unjust. Hopefully the PNP will recognize that any organized protests in response to the tax hike could quickly get out of hand, creating civil unrest and possibly hurting the tourism sector, one of the few bright spots in the local economy.
End Summary and Analysis

Golding's Speech In Parliament

¶2. (SBU) In Parliament Golding spoke of the possible sale of Air Jamaica to Caribbean Airlines in an effort to shed liabilities and accelerate an IMF agreement. He announced that the proposed expansion of Petroleum Jamaica's (PetroJam) refinery, in partnership with Venezuela (PDVSA), cannot be supported by a sovereign guarantee. Golding also revealed that the Chinese will build a new office for the Ministry of Foreign Affairs and Foreign Trade. Most noteworthy was the fact that both Shaw and Golding failed to provide specifics for how the GOJ intends to address restructuring of its massive domestic debt, an issue that is on the minds of many Jamaicans. However, Golding said he was satisfied with the openness of the market players, who he said "now understand that their interests are inextricably tied to those of Jamaica."

Third Tax Hike This Year

¶3. (SBU) Shaw reiterated the many challenges facing the local economy, including negative productivity growth and persistent fiscal imbalances, problems magnified by the global economic downturn (Reftels B, C, D). He provided details for the third tax package for this fiscal year (nine months to December), amounting to a projected JMD\$22 billion (US\$ 248 million) in new tax revenue (equivalent to nearly two percent of GDP). This will bring the total estimated tax increase for this fiscal year to JMD\$48 billion (US\$541 million) or 3.78 percent of GDP, unless Golding implements revisions as he has suggested. NOTE: It is also unclear how any revisions in the proposed tax package will be received by the IMF, which appeared to time its announcement to Golding's speech in parliament END NOTE).

Taxing Across the Board-Public Outraged

¶4. (U) Shaw announced a 15 percent ad valorem tax on gasoline (this is in addition to the U.S. 10 cents tax per liter added in April) and a 20 percent increase in the tax on cigarettes. The GCT will be raised by one percentage point, but more significant is the drastic reduction of the number of goods and services that were previously exempt. It is the new taxes on basic food items such as fruits, vegetables, beans, eggs, flour and fish that has generated such outrage among the populace. In addition, GCT now will be applied to residential electric bills for all electricity use above 200 kilowatt hours per month. Shaw tried to couch the move as a strategy for promoting energy conservation, and sought to downplay its impact by saying it would not affect 310,000 households out of the country's estimated 540,000.

IMF Team Agrees On Key Elements With GOJ, But, Golding Backtracks

¶5. (U) At the same time of the Parliamentary speeches, Trevor Alleyne, head of the IMF mission to Jamaica, said in a press release, "The Jamaican authorities and an IMF staff mission have reached agreement on the key elements of a program that the IMF would support with a loan under a Stand-By Arrangement (SBA) of nearly US\$1.3 billion over 27 months. He added, "We will remain in

close contact with the authorities over the coming days as they finalize their economic program in a Letter of Intent, which then would be reviewed by IMF management. The IMF's Executive Board likely will consider Jamaica's SBA in early 2010. (NOTE: Any revisions in the tax hike announced by Shaw would require further discussions with the IMF and could lead to delays in bringing the SBA to the Executive Board. END NOTE).

Shaw Says U.S. Supports Jamaica on IMF Deal

¶6. (U) Shaw said that he met with U.S. Treasury Deputy Assistant Secretary for the Western Hemisphere Dr. Nancy Lee in Istanbul and that "in a meeting with our U.S. Ambassador Anthony Johnson last Tuesday she said the United States is very supportive of a very substantial financial package from the IMF and other multilateral institutions to back this deal, but only in the context of an agreement that will solve the problem in the long term." Shaw went on to say the U.S. has been supportive in the country's tax reform

efforts and highlighted specific technical assistance provided by the U.S. Treasury's office of Overseas Technical Assistance (OTA) and the Internal Revenue Service (IRS).

Golding: Cooperation of the Market is Crucial For Debt Solution

¶7. (SBU) In a follow-up speech to Shaw's presentation on new austerity measures, PM Golding sought to provide context for the "perilous state of the economy" and emphasized that the GOJ's options are "extremely limited." He said he anticipated a war of words to ensure, cautioned "truth was likely to be the first casualty," but noted that "Jamaica's future may be the greatest casualty." He said the budget deficit will not be wiped out by the current revenue measures, and therefore other strategies will have to be employed. Golding stressed that JMD\$85 billion (US\$ 959 million) in annual debt servicing is at interest rates of between 16 to 25 percent, which he noted is the highest of anywhere in the world. He also said "the GOJ is pursuing a program, although it is not signed off on yet, that will address the high interest rate problem, but cooperation of the market in this is crucial." (NOTE: Many listeners were anticipating more specifics for addressing the exorbitant debt problem to complement the tax package. Also with Golding indicating he may revise the tax increase, it is not clear how much this may delay IMF negotiations. END NOTE).

Shedding Contingent Liabilities

¶8. (SBU) Golding spoke of a possible sale of Air Jamaica to Caribbean Airlines in an effort to comply with some of the terms of a potential IMF deal (Reftels E and F). He added that the GOJ would assume all existing liabilities for Air Jamaica as part of a privatization deal, but said the GOJ is not prepared to accept any future liabilities (possibly hinting that the airline would be closed if a buyer could not be secured in the short-term). (NOTE: The GOJ is still in talks with private equity group Indigo Partners, operators of Spirit Airlines, about the purchase of Air Jamaica END NOTE). He also emphasized that the proposed expansion of Petroleum Jamaica's (PetroJam) refinery, the cost of which has increased from US\$ 600 million to US\$ 1.2 billion, cannot be supported by a sovereign guarantee. He said, "Given the country's fiscal and debt situation we cannot absorb that kind of liability."

¶9. (U) Golding said the government also plans to divest its 45% equity stake in the JAMALCO bauxite plant; the balance is owned by U.S. firm Alcoa. The GOJ also will sell its 20% share in the monopoly power provider Jamaica Public Service (JPS) and intends to privatize the Norman Manley International Airport in Kingston. (NOTE: The GOJ privatized Sangster International Airport in Montego Bay in 2003 End Note). Golding also said there were plans to privatize the Port Authority of Jamaica, which operates all the major ports on the island.

Chinese Investments

¶10. (U) Golding said the Chinese have agreed to build a new building for the Ministry of Foreign Affairs and Foreign Trade. He also noted that the new convention center currently being built by the Chinese will "never break even" and will require government subsidy in the future. He also stated, that the Trelawny Stadium built for Cricket World Cup 2007 remains "a white elephant" and continues to cost the GOJ money.

PNP Calls Tax Hike "Cruel and Unjust," Pushes For Protests

¶11. (U) The PNP was quick to pounce on the Jamaican Labour Party (JLP's) failure to address the debt problem in their presentation, and PNP President Portia Simpson Miller (PSM) labeled the tax hike, "wicked." PNP Member of Parliament and Former Finance Minister Omar Davies said the JLP's plan for tax hikes was "cruel and unjust" and added that it is going to place an undue burden on the poor and "once again the wealthy are not paying their fair share." Davies said this was essentially the third budget presentation in eight months, but "the JLP has still not gotten it right." The PNP held a meeting of the party's National Executive Council (NEC) over the weekend with PSM saying "we shall take no more, telling the audience, "are you ready to demand the government roll back the unjust and inequitable taxes? She continued, "Then go forth, comrades with discipline." "Await the instructions for the various protests across the country. "

Analysis

¶12. (SBU) After months of false starts, the JLP finally has announced concrete plans to try to raise new revenue and is closing in on an IMF deal, only to backtrack three days later saying it may revise the tax hike. The JLP missed an important opportunity to link the tax increase with a debt reduction plan that would fall on the shoulders of wealthier Jamaicans. This mistake also gave the PNP ammunition to fire back on the JLP, saying the tax hike was inequitable and unjust. The press release from the IMF noting that a deal should come early in the new year should have calmed the markets, but the uncertainty of the tax plan and the possibility of protests will mute benefits of this message. Jamaicans, already suffering under a deteriorating economic climate, will not welcome the rash of new taxes, but Golding's apparent backtracking will likely embolden the PNP. Hopefully the PNP will recognize that any organized protests in response to the tax hike could quickly could get out of hand, creating civil unrest and possibly hurting the tourism sector, one of the few bright spots in the local

economy (Reftel G). End Analysis.
Parnell